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Annual Report

SAFEWAY STORES

INCORPORATED

YEAR ENDED DECEMBER 31

1946

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Safeway's Record—in Brief	1946	1945
Net Sales—United States and Canada	$847,455,525	$664,771,549
Cost of Sales—Paid out to Farmers and other Suppliers of Goods	$683,826,270	$537,655,864
Net Total of Operating and Administrative Expenses, Rental of Equipment, Provision for Depreciation, Other Income, Other Charges, Provision for Taxes on Income	$152,215,629	$122,033,171
Net Profit	$11,413,626	$5,082,514
Dividends to Preferred Stockholders	$1,018,300	$1,039,615
Dividends per share to Preferred Stockholders	$5.00	$5.00
Net Profit applicable to Common Stock	$10,395,326	$4,042,899
Net Profit applicable to Common Stock, per share *	$4.09	$1.59
Dividends to Common Stockholders	$2,540,648	$2,540,652
Dividends per share to Common Stockholders	$1.00	$1.00
Number of new stores opened during the year	23	23
Number of stores closed during the year	52	44
Number of stores in operation at end of year	2,413	2,442

*Average number of shares outstanding during the year.

ANNUAL REPORT

of the President to Stockholders

This Report to the stockholders, which includes the Consolidated Balance Sheet and Statement of Profit and Loss, covers the operations of your company and its consolidated subsidiaries during the year 1946.

The interest of your company in Cortland Equipment Lessors, Incorporated, a wholly owned subsidiary, has been treated as an investment in the Consolidated Balance Sheet. A copy of the separate Balance Sheet and a copy of the Statements of Income and Surplus of that company are enclosed with this report for your information.

Sales and Profits

The net sales of your company during 1946 were $847,455,524.55. This was an increase of $182,683,975.52 or 27.48% as compared with 1945. The sales of your company and the average number of stores and meat sections operated by it during each of the last ten years are shown in the table which appears on page 4.

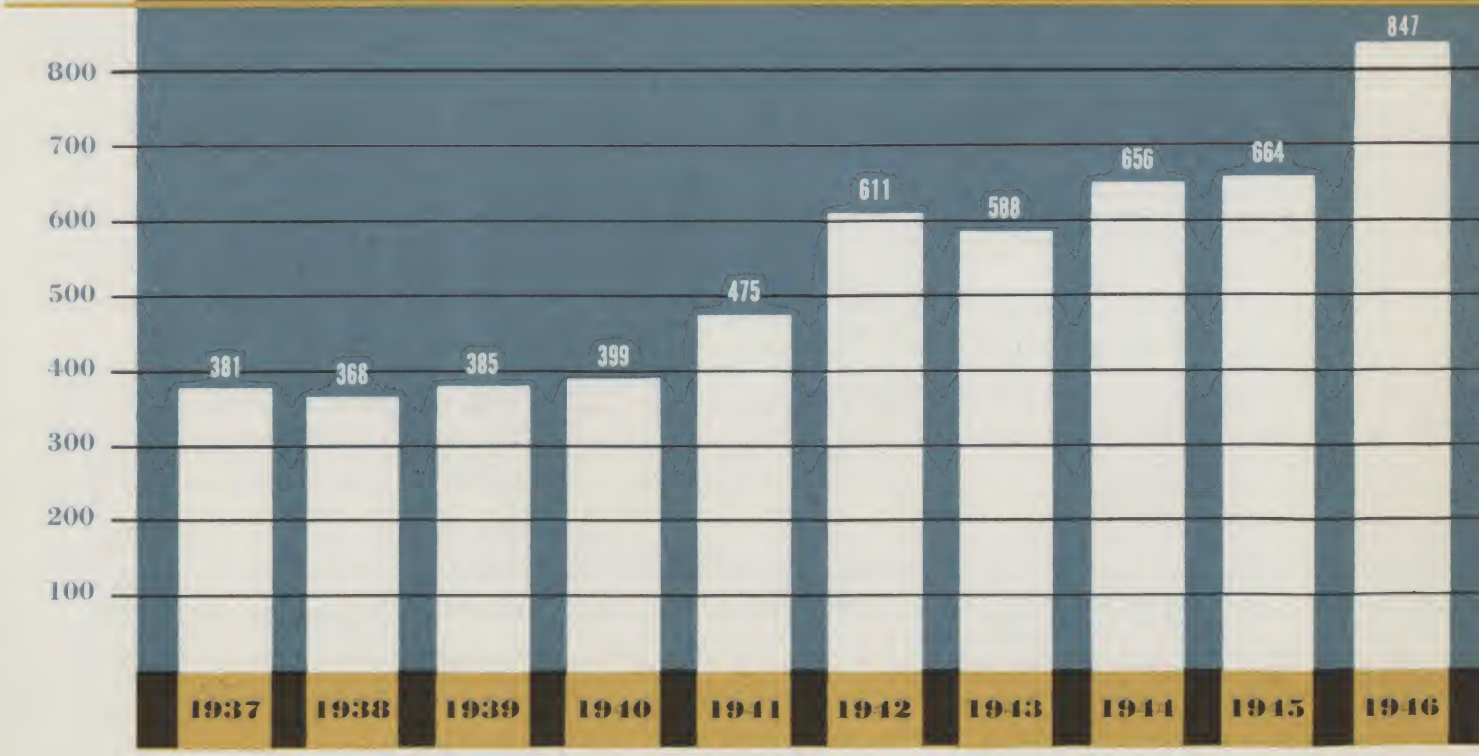
The consolidated net income of your company for the year 1946, after provision for adequate depreciation, equipment rental charges, interest and other charges shown in the Statement of Profit and Loss and United States and Canadian taxes on income, amounted to $11,413,626.20 as compared to $5,082,514.19 in 1945. The provision for United States and Canadian taxes on income for the year 1946 is in the amount of $7,667,486.34. Dividends of $1,018,300.00 were paid on the preferred stock during the year.

After providing for United States Income Taxes and Canadian Income and Excess Profits Taxes and preferred dividends, the earnings of your company applicable to common stock were $4.09 per share on 2,540,730 shares, the average number of shares of common stock outstanding during the year. Dividend requirements on the average amount of the preferred stock outstanding during the year were earned 11.21 times. The operations of the Canadian subsidiaries have been included in the Statement of Profit and Loss on the basis of 99.5025 cents to the Canadian dollar.

Sales AVERAGE NUMBER OF STORES (and Meat Sections) IN OPERATION *1937-1946*

Year	*Sales*	*Grocery Stores*	*Meat Sections Located in Grocery Stores*
1937	$381,868,220	3,327	2,670
1938	368,254,991	3,227	2,710
1939	385,882,083	2,967	2,643
1940	399,322,122	2,671	2,508
1941	475,124,885	2,660	2,472
1942	611,139,477	2,697	2,493
1943	588,833,620	2,493	2,418
1944	656,571,505	2,463	2,402
1945	664,771,549	2,452	2,386
1946	847,455,525	2,428	2,376

Total Sales 1937-1946



A comparison of the total sales of your company by years during the last ten years is given in the chart set out on page 4.

Financial Position

The total net assets of your company and its subsidiaries as of December 31, 1946, according to the attached Consolidated Balance Sheet, were $71,901,080.62. On the same date the total current assets of the company and its consolidated subsidiaries amounted to $124,538,-662.75, while total liabilities, including term bank loans of the company and its consolidated subsidiaries, amounted to $71,485,608.39 or an excess of current assets over all liabilities of $53,053,054.36. The ratio of current assets to current liabilities as reflected by the Consolidated Balance Sheet was 2.42 to 1. The current and working assets and current liabilities of the subsidiaries in Canada are included in the Consolidated Balance Sheet at 99.5025 cents United States to the Canadian dollar; fixed assets are included at the rates prevailing when such assets were acquired or constructed.

The year 1947 begins the 22nd consecutive year of uninterrupted common and preferred stock dividend payments by your company.

The capital and surplus of your company, the net assets per share of preferred stock, the book value per share of common stock and the dividends and earnings per share of the common stock for the last ten years are shown in the table below. The book value of the common stock is computed without deducting the premium of $10.00 per share to which the preferred stock is entitled upon voluntary or involuntary liquidation. The number of shares outstanding at the end of each year is used in determining book values and the average number of shares outstanding during the year is used in computing earnings.

Capital and Surplus

BOOK VALUE, DIVIDENDS AND EARNINGS PER SHARE *1937-1946*

	Capital and Surplus	*Net Assets Per Share of Preferred Stock*	*Book Value Per Share of Common Stock**	*Dividends Paid Per Share of Common Stock**	*Net Earnings Per Share of Common Stock**
1937	$47,334,239	$298	$13.16	$0.83**	$0.87
1938	48,407,475	314	13.84	.67	1.34
1939	51,075,334	308	14.26	1.50**	2.20
1940	53,286,166	287	14.38	1.17	1.59
1941	60,007,566	270	14.87	1.17	1.64
1942	60,154,048	280	15.23	1.00	1.35
1943	61,453,200	288	15.78	1.00	1.56
1944	62,564,498	299	16.40	1.00	1.63
1945	63,604,685	311	16.97	1.00	1.59
1946	71,901,081	359	20.18	1.00	4.09

*Number of shares for each year adjusted to reflect 3-for-1 stock split-up effected April 12, 1945.
**Paid in part in five percent preferred stock.

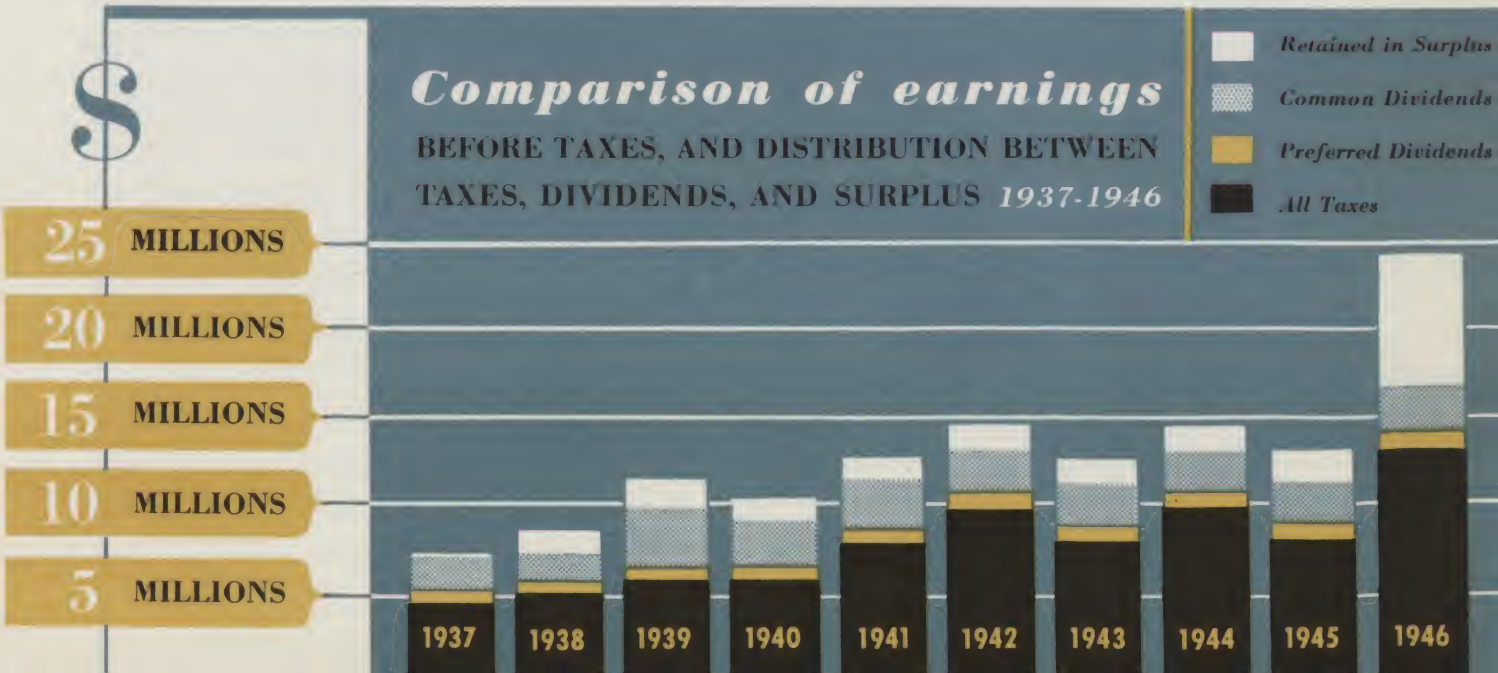
What happened to Safeway's 1946 sales dollars?

Every $100 taken in by Safeway was paid out as follows:

Paid Out to Farmers and other Suppliers of Goods	$80.69
Paid Out in Salaries, Wages and Bonuses	$10.66
Paid Out for Operating Supplies and Other Expenses	$5.11
Paid Out for All Local, State and Federal Taxes	$1.54
Profit for Stockholders and Surplus	$1.35
Set Aside to Cover Depreciation and Rental of Equipment	$0.54
Paid Out as Compensation to Elected Officers	$0.11

Comparison of earnings

BEFORE TAXES, AND DISTRIBUTION BETWEEN TAXES, DIVIDENDS, AND SURPLUS *1937-1946*



Summary of 1946 activities

Employee Retirement Plan

In accordance with the authorization given by the stockholders on December 30, 1946, the company and its United States subsidiaries have adopted and placed in effect a self administered, trusteed, Employee Retirement Plan for the benefit of their employees. Approximately 90% of all eligible employees have now applied for membership in the Plan. It is the intention of the management to adopt a Retirement Plan for the employees of the Canadian subsidiaries during 1947.

The management believes that the Plan will be of substantial and permanent value to the company. It will reduce employee turnover, and in addition, will enable your company to hold its trained and competent employees, to attract a superior class of employees, to compete for qualified executive talent, to fulfill its obligations to its aged employees and in general to improve the loyalty, morale and good will of all employees. By limiting membership to employees who are 35 years of age and over and who have been with the company for five years the benefits of the Plan have been restricted to those employees who have proved their permanency.

OPERATIONS

Meats

The meat slaughter plants referred to in the Annual Report for the year ended December 31, 1945, together with an additional plant acquired during the year at Joplin, Missouri, enabled your company to obtain a much larger, and from a quality standpoint, better supply of meat for its retail meat sections during 1946 than would otherwise have been possible. The supply of meat so obtained materially assisted the company in holding the patronage of its regular customers and in attracting new customers to its stores.

Poultry

During the year 1946 your company acquired additional poultry eviscerating, freezing and packaging plants at Showell, Maryland, and Rogers, Arkansas. The poultry plants operated by your company purchase live poultry from growers, and dress, freeze and package the same for distribution through your company's retail meat sections. In

addition to the supply of poultry obtained from company operated plants, large quantities of quick frozen poultry were purchased from others in the industry for sale through the company's retail meat sections. Much of the poultry so obtained was packaged and sold under company sponsored brand names.

Price Regulations

The O.P.A. price regulations continued to handicap your company's operations in 1946. As pointed out in previous reports, these regulations in addition to making it difficult for your company to obtain adequate supplies of meat and other commodities, fixed ceiling prices in a manner which discriminated against large volume food stores such as those operated by your company. The adverse effect of these regulations is reflected in both sales and income for the year.

Supply and Service Departments

During the year 1946 your company continued its program of decentralization and the use of free standing departments for both its supply and service departments. These departments, which operate as specialists in their fields, enabled your company to keep a close check on inventory and supply problems, and rendered other valuable assistance in meeting the problems which arose with the ending of the war. The success of these departments in the United States led your company to set up similar departments in Canada for several of the more important supply operations. It is planned to expand these free standing operations in Canada as need arises.

Building

Government restrictions on commercial and industrial building construction were continued in effect during 1946. These restrictions, coupled with shortages of materials and excessive building costs, made it impossible for your management to carry on its "buy-build-sell-lease" program with respect to store and plant facilities. During 1946 your company did, however, construct or extensively remodel 5 store buildings in key locations where it was believed that the excessive cost was justified in order to obtain representation. Your company also acquired 18 leased locations in existing buildings during the year.

The company continued to purchase sites for retail store buildings and plant facilities to a limited extent in 1946 as your management believes that it is advisable to have a backlog of properties on hand in order to permit the resumption of the "buy-build-sell-lease" program without delay when conditions improve. The properties so acquired

are being sold to investors and leased back under leases which give the purchasers the first opportunity to acquire and lease to the company the improvements which will be constructed thereon. On December 31, 1946 the company had on hand 236 locations upon which it plans to construct retail store buildings, and 22 locations upon which it plans to construct plant facilities.

The equipment and fixture purchase financing plan which was summarized in the Annual Report for the year ended December 31, 1945 has now been in operation for a full year. Although equipment and fixture purchases were restricted by short supply and high prices in 1946, your company realized substantial benefits from the plan.

Inventories

The food industry was faced with serious inventory problems during the latter part of 1946. It is probable that many of these problems will continue to trouble the industry in 1947.

Your management was convinced that with the end of wartime regulations a serious over-supply of many food items would arise which would lead to substantial price reductions. Early in 1946 your company began to eliminate from its retail store and warehouse inventories those items which had been added as a wartime expedient and to reduce its inventory on other items to as low a point as it believed could be justified.

The present inventories, when considered only from a dollar and cents standpoint, are high in comparison with the inventories carried during prewar years. This increase in inventory values results from price advances, from inventories required for processing operations which your company did not engage in during the prewar period, from a change in suppliers' selling practices which make it difficult to buy for future delivery and from continuing delays in transportation which make it necessary to carry larger warehouse stocks than during the prewar period. If the merchandise required by the new processing operations is eliminated from the inventories, the actual tonnage of merchandise on hand at the end of 1946 was only slightly greater than that carried in stock during prewar years. When consideration is given to price advances and to the increase in business which your company is now experiencing it is not believed that the inventories are excessive.

Your company plans to continue its present policy of purchasing merchandise as needed and of avoiding future commitments except for

items which are still in limited supply until the price and supply conditions become more stable. However, it intends to keep on hand at all times a sufficient quantity of merchandise to insure continuous day-to-day operation of its stores without loss of sales.

Your company adopted a conservative pricing policy as to inventories on hand at the end of the year but did not set up reserves against future inventory declines. The management felt that it was preferable to record the true picture of the year's operations and by a conservative dividend policy transfer to earned surplus the amount which would otherwise have been designated "inventory reserve." The same protection will be gained from the increase in earned surplus as would have been obtained from an inventory reserve.

The necessity of carrying a substantial inventory of merchandise to properly provide for your company's day-to-day operations will make it impossible to avoid all inventory losses when food prices decline. The actual amount of such loss can not be accurately determined, but it will be reflected in reduced spreads as the merchandise is sold. It is hoped that your company's policy of reflecting lower purchase costs in its retail prices, coupled with the precautions which it has taken, will enable it to keep such losses at a minimum and avoid any excessive loss resulting from abnormally large inventories of individual items. Your company's policy of immediately following declines in replacement costs in its retail prices serves a twofold purpose. First, it increases merchandise turnover, thereby minimizing price decline losses, and second, it eliminates the possibility of competitors, with lower prices, attracting customers away from your stores, with a consequent overall business loss which would affect your company more seriously than the price declines themselves.

Facilities at the End of the Year

During the year a total of 23 retail stores and 38 meat sections were opened, while 52 retail stores and 56 meat sections were closed. In accordance with company policy the expense of closing all stores vacated and the unamortized value of leasehold improvements on these stores were charged against current earnings. Leasehold improvements on continuing stores are being charged off on an amortized basis.

As of December 31, 1946 your company had in operation 2413 retail stores in which were located 2364 meat sections. In addition to such

retail stores and meat sections your company and its subsidiaries also operated 40 principal grocery warehouses, 23 produce warehouses, 18 bakeries, 7 fluid milk plants, 7 coffee roasting plants, 4 meat distribution warehouses, 11 meat slaughter plants, 4 dressing plants, 7 butter plants, a gelatin dessert plant, a cracker bakery, an evaporated milk plant, a candy factory, a jam and jelly plant, a fruit and vegetable cannery and a number of smaller plants and warehouses.

PERSONNEL

Employees as Citizens

The following examples, selected from many on record, show that Safeway employees continued during 1946 to take an active interest in civic affairs:

A store manager in California was elected president of his Kiwanis Club.

A store manager in Colorado was elected president and director of his community's Chamber of Commerce.

A training school instructor in California was elected president of a high school Parent-Teachers' Association.

A store manager in California was elected vice-president of a regional Chamber of Commerce.

A district manager in Maryland was elected president of his Rotary Club.

A store manager in Montana was elected District Governor of the Active Club.

Employees' Association

Employees who are members of the Safeway Employees' Association are entitled to the benefits of a group insurance plan which includes life, disability and hospitalization protection, the cost of which is borne by the participating members and your company and its subsidiaries. The total group insurance in force now aggregates approximately $107,032,640. Some revision may be required in the insurance protection afforded employees under the group insurance plan if compulsory health insurance programs are adopted by states in which your company operates. However, the revisions, if any, which will be required cannot be determined until the state legislatures have concluded their current sessions.

Contingent Compensation

During 1946 your company extended its contingent compensation plans for Zone Managers, District Managers, Retail Location Managers and Head Meat Cutters to Canada. Payment of compensation on this basis to employees in these classifications in both the United States and Canada was made without prejudice to the affiliation of these employees with labor unions.

In addition, incentive compensation plans were placed in effect for a number of Supplier and Service Division Managers and for other executives who occupy important administrative and executive positions with the company. It has long been the company's practice to base the compensation of its Retail Distribution Division Managers upon the results of the operations under their control and it is a desirable extension of this practice to set up incentive compensation arrangements based on the company's over-all results for executives who either occupy similar positions in the Supplier and Service Divisions or who, as a part of their administrative and executive duties, supervise and correlate the activities of these Divisions with the other company operations. In addition to serving as an incentive to the executives in question, these plans will retard requests for fixed salary increases and so aid in preventing high fixed salary obligations which would handicap the company during years of low earnings.

Prospects and Plans for 1947

General

The removal of wartime restrictions, more plentiful supplies of merchandise and the return of experienced personnel from the armed services, have permitted your company to again plan its business from a peacetime viewpoint. Food and supplies should become increasingly plentiful during 1947 and while this will undoubtedly result in lower prices it should also serve to revive competition as an active element in the food business. Your company's modern retail and plant facilities, its supply organization and its merchandising policy of selling high quality, fully guaranteed merchandise at prices as low as the lowest competitive price in the trading area, should enable it to retain its present customers and add new customers. Unless labor difficulties or other causes beyond its control interfere your management looks for substantial progress in your company's business during the year.

Your company, in common with all industry, experienced some labor difficulty in 1946. However, with a single exception these difficulties arose out of industry-wide disputes in which your company was affected only as a member of the industry. The trucking strike in New York City, the clerks' strike in Los Angeles and the general strike in Oakland, each of which resulted in the closing of your company's retail stores in the areas affected, were all industry-wide and involved your company only because of that fact.

The one exception in which your company is involved individually is a series of disputes with union locals representing a relatively small part of the company's meat section employees on the West Coast. These difficulties have resulted from the insistence of certain labor leaders, acting in concert with competitive groups, that your management relinquish control over functions, such as the right to determine the days and hours during which the retail stores shall remain open, which in the opinion of your directors and officers must be reserved to management. Your management believes in the payment of fair wages, the establishment of reasonable working hours per week and the freedom of Safeway employees to bargain collectively, but it believes it improper to relinquish to labor leaders the right to make its business and

operating decisions as long as there is a court left to which it can appeal for protection.

Your management is thoroughly aware of the increasing seriousness of the so-called labor management problem and the necessity of improving labor-management relations. In the belief that the stockholders will find it of interest, there is reprinted at the end of this report the President's Annual Message to the organization which appeared in SAFEWAY NEWS.

Your management recommends to stockholders and employees alike their active consideration of proposals pending in the Congress for a revision of legislation governing labor-management relations and the rights and responsibilities of labor unions. Your management believes that constructive legislation of this type, which recognizes the rights of the individual employee and stresses the improvement of his situation is necessary in the interest of employees, stockholders, and the public.

Shortages of material, restrictions and excessively high costs have made it impossible up to this time for your company to resume its store and plant improvement and development program and for the present only emergency construction work is being done. It is doubtful if building costs will become stabilized sufficiently to permit the resumption of this program before the end of the year. Your company, however, has a backlog of both plant and store sites for which preliminary development plans have been prepared and has so arranged its financing as to enable it to reinstate this work with a minimum of delay when conditions again permit.

Canadian Reporting

The Annual Report for 1945 advised that your management hoped soon to be in a position to complete the reorganization of your company's Canadian operations and to thereby relieve the United States operations of your company from the necessity of financing the Canadian business. The first steps in this program have now been taken and it appears probable that the reorganization can be completed before the end of 1947. If the reorganization is completed the results of the Canadian subsidiaries will be omitted from the consolidated financial statements in the 1947 Annual Report.

Reserve Merchandise Financing

Your management is now working on a plan, which if it is completed, will enable your company to assure bank financing, at reasonable costs, for the purchase and storage of all reserve merchandise inventories required in its operations. The plan now under consideration involves the organization of a wholly owned subsidiary corporation which either directly or through subsidiaries will carry on merchandise procurement and processing operations and arrange for the storage of merchandise other than that in the retail store and distribution warehouses. This subsidiary will finance these operations through borrowings from commercial banks. This decentralized operation will permit your company to enjoy many benefits similar to those which are now obtained from its fixture and equipment financing plan.

Employee Training

Your company's long range expansion program will require the training of many new employees as well as a continuing refresher and educational program for its experienced personnel. Included in these employee-training plans is an extensive prework program, during which trainees will receive their regular compensation. Webster Training Service, which has been set up by your company to carry on this work, has on its staff specialists in training and personnel research, job analysis and instructor and supervisory training as well as in location manager, meat employee and plant, warehouse and office employee training. It is believed that this training will develop a superior group of employees for your company's operations with a resulting benefit to your company which will more than justify the cost of the programs.

Litigation

The federal anti-trust suit against your company and a number of its subsidiaries, officers and employees, referred to in the last three Annual Reports, has been set for trial on November 10, 1947. The management is confident that a complete defense can be presented to all the charges in the indictment. The stockholders' representative actions referred to in previous Annual Reports have not been brought to trial to this date. In the opinion of your management these actions are without foundation.

In closing this report I wish to express to all employees my appreciation for their loyal cooperation and help, without which the success of the company during the past year would have been impossible.

Duncan A. Warren

President.

THE RELATIONSHIP AMONG SAFEWAY PEOPLE

Normally, this message is devoted to a discussion of plans ahead because plans for future progress and success are important to all of us. This year I want to discuss a phase of our business that vitally affects the present and future welfare of each one of us.

This phase is loosely referred to as "Labor-Management Relations." I don't like that term because it implies a conflict which ignores the common interest of all of us. I believe it should be called, "The Relationship Among All People Who Derive All or Part of Their Livelihood from Safeway."

Included are all of you who directly serve the public —who are on the "firing line", so to speak—those whose work consists primarily of "backing up the line," or directing others, and the stockholder owners of the business. All have a common interest in Safeway's success.

Upon a sensible solution of our internal Company relations depends in large part the success of our Company. Not only during 1947 but for many years to come.

In this New Year's message I want to set down certain fundamental propositions which I believe are important in guiding our relationship with one another. They promote not only the efficiency of our Company but the success and prosperity of each one of us. Thoughtful consideration of them can go a long way toward maintaining the kind of relationship so important to all of us.

1. Labor strife is a costly industrial disease. Strikes, lockouts and other interferences with full and continuous operation result in a net loss to the employees involved, to the business, to all persons who depend upon the Company for livelihood and to society in general.
2. All of the Company—stockholders, elected officers, men and women on the firing line—all employees—have strong mutual interests. All persons connected with the Company stand to gain when the business prospers. All stand to lose when the business suffers or is damaged.
3. Efficiency, productivity and service are the real keys to prosperity. We cannot lift ourselves by our boot straps, but we all benefit in proportion to our ability to give greater service and to lower costs.

Down through the years, individuals who work in business have increased their real incomes through increased efficiency, productivity and service rendered. This has resulted in the high productivity of American business to which we owe the highest standard of living ever known to the world.

In Safeway, all of us have shared the benefits of an expanding and improving business. Good teamwork between stockholders, management and employees has increased our productivity. The stockholders have furnished the capital (which provides the stores, warehouses, inventories, trucks, etc. we use) necessary for the operation of the business. Management, through policies and plans, has directed the business. The personnel has effectively applied those policies and plans.

How individuals or groups that derive their living from Safeway have shared the benefits of an expanding and improving business is shown by the payments that have been made to them. For example: In 1945, the Company paid out approximately 77-million dollars to stockholders and in salaries and wages. Out of every dollar paid out, stockholders received 6.6c (six and six-tenths cents) in the form of dividends and sums allocated to surplus; elected officers receievd .6c (six-tenths of a cent) ; all other Company personnel received 92.8 (ninety-two and eight-tenths cents), or approximately 71 of the 77-million dollars that were paid out.

It is normal for people to strive to do the best for themselves. However, over-emphasis of this incentive develops confused thinking which loses sight of the fact that the prosperity of the individual depends upon the prosperity of the Company. Straight thinking is not easy when self interests are involved. Each individual responsible for supervising a Safeway operation must conduct himself with a constant recognition of the three fundamental propositions I described earlier in this message.

And every employee, whether or not a member of a labor union, should recognize both his rights and responsibilities as an individual. Every man and woman in Safeway may make an important contribution by either furnishing or insisting upon the kind of intelligent leadership which will eliminate costly and unnecessary labor strife.

A New Year's Message from Lingan A. Warren, President, reprinted from the SAFEWAY NEWS of January, 1947.

FINANCIAL STATEMENTS

PEAT, MARWICK, MITCHELL & CO.

Accountants' Report

To the Board of Directors,
Safeway Stores, Incorporated.

We have examined the Consolidated Balance Sheet of Safeway Stores, Incorporated and Subsidiary Companies as of December 31, 1946, and the Statements of Consolidated Profit and Loss and Surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying Consolidated Balance Sheet and related Statements of Consolidated Profit and Loss and Surplus present fairly the position of Safeway Stores, Incorporated and Subsidiary Companies at December 31, 1946, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

San Francisco, California,
March 7, 1947.

SAFEWAY STORES, INCORPORATED, AND SUBSIDIARIES

Consolidated Balance Sheet as of December 31, 1946

ASSETS

Current Assets:		
Cash in banks and on hand		$ 18,479,864.28
Dominion of Canada Bonds—at cost		2,594,395.41
Accounts receivable—trade, less reserve $69,721.13		1,906,621.23
Government accounts receivable		976,383.51
Sundry accounts receivable		934,928.38
Advances on purchases		284,067.80
Inventories (Note 2)		99,362,402.14
Total Current Assets		124,538,662.75
Prepaid Expenses and Deferred Charges:		
Taxes, licenses and rents	$ 626,640.93	
Insurance	440,445.35	
Supplies and miscellaneous	881,903.45	1,948,989.73
Investment and Advances:		
Investment in and advances to wholly-owned subsidiary not consolidated (Note 3)	7,179,325.54	
Security investments—at cost	166,451.12	
Other investments	479,996.21	7,825,772.87
Fixed Assets—at cost, less depreciation:		
Land	3,499,216.02	
Buildings	4,337,271.97	
Leasehold improvements	1,907,319.30	
Store, warehouse and plant fixtures and equipment	2,278,201.70	
Automotive equipment	82,912.56	
	12,104,921.55	
Less reserve for depreciation	3,118,934.10	8,985,987.45
Redemption Premium and Expense, prior issue—balance unamortized		87,276.21
Total		$143,386,689.01

For notes constituting a part of the foregoing Consolidated Balance Sheet see page 21

SAFEWAY STORES, INCORPORATED, AND SUBSIDIARIES

Consolidated Balance Sheet as of December 31, 1946

LIABILITIES

Current Liabilities:		
Notes payable to banks		$ 18,000,000.00
Accounts payable		19,665,531.45
Accrued expenses		5,753,460.87
Dividend payable		250,401.25
Provision for Federal and Canadian taxes on income		7,816,214.82
Total Current Liabilities		51,485,608.39
Notes Payable to Banks, 2¼%, due $1,000,000 annually December 31, 1951 to 1954 and $16,000,000 December 31, 1955		20,000,000.00
Capital and Surplus:		
5% preferred cumulative stock, par value $100.00 per share (Note 4):		
Authorized and outstanding 200,321 shares	$ 20,032,100.00	
Preferred stock, unclassified as to series, par value $100.00 per share:		
Authorized and unissued 290,775 shares		
Common stock, par value $5.00 per share:		
Authorized 4,500,000 shares		
Outstanding 2,570,647.52 shares (after deducting 15,304.48 shares in treasury)	12,853,237.60	
Paid-in surplus	9,979,821.79	
Earned surplus (Note 5)	29,035,921.23	71,901,080.62
Contingent Liabilities (Note 6)		
Total		$143,386,689.01

SAFEWAY STORES, INCORPORATED, AND SUBSIDIARIES

Statement of Consolidated Profit and Loss For Year Ended Dec. 31, 1946

Sales (net)		$847,455,524.55
Cost of sales		683,826,269.67
Gross profit		163,629,254.88
Operating and administrative expenses	$138,503,925.22	
Rental of fixtures and equipment, paid to Cortland Equipment Lessors, Incorporated, a subsidiary not consolidated	4,017,314.80	
Provision for depreciation	582,517.15	143,103,757.17
Net operating profit		20,525,497.71
Other income:		
Interest received and sundry income	123,473.66	
Adjustment of provision for Canadian exchange, less amount credited to surplus (Note 1)	312,271.42	435,745.08
		20,961,242.79
Other charges:		
Interest, discount and expense on long-term debt	517,912.00	
Other interest	227,819.96	
Loss on disposition of property, plant and equipment	152,945.29	
Payments to Employees' Retirement Plan Trust Fund including $259,725.00 in respect of past service benefits	981,453.00	1,880,130.25
Profit before taxes on income		19,081,112.54
Provision for taxes on income:		
Federal normal and surtax	6,973,089.52	
Other income taxes, less adjustments for prior years, $228,670.62	694,396.82	7,667,486.34
Net profit (Note 1)		$ 11,413,626.20

Statements of Surplus for Year Ended December 31, 1946

Earned Surplus

Amount at December 31, 1945		$ 20,649,799.44
Add:		
Net profit for year ended December 31, 1946	$ 11,413,626.20	
Restoration of portion of provision for Canadian exchange charged to Earned Surplus in 1939 and 1940 (Note 1)	531,443.31	11,945,069.51
		32,594,868.95
Deduct cash dividends:		
Preferred stock—$5.00 per share	1,018,300.00	
Common stock —$1.00 per share	2,540,647.72	3,558,947.72
Amount at December 31, 1946 (Note 5)		$ 29,035,921.23

Paid-in Surplus

Amount at December 31, 1945	$ 9,774,341.79
Add excess of amount paid in over par value of 30,000 shares of common stock issued to president upon exercise of option	250,000.00
	10,024,341.79
Deduct premium on 5% preferred stock retired	44,520.00
Amount at December 31, 1946	$ 9,979,821.79

For notes constituting a part of the foregoing Statements of Consolidated Profit and Loss and Surplus see page 21

Notes to Financial Statements

Note 1 ***Principles of Consolidation.*** All subsidiaries are included in the financial statements except Cortland Equipment Lessors, Incorporated, a subsidiary for which separate financial statements are submitted herewith (see Note 3).

The current and working assets, current liabilities and operations of the subsidiaries in Canada (in which country exchange restrictions are in effect) are included in the financial statements at the official selling rate of exchange at December 31, 1946, which increased during the year from 90.498 to 99.5025; fixed assets and depreciation are included at the rates prevailing when such assets were acquired or constructed. On the foregoing basis, the net equity in these subsidiaries at December 31, 1946 amounted to $9,360,816.53; their undistributed profits since acquisition included in the earned surplus amounted to $790,388.68. The net profit of these subsidiaries for 1946 was $1,330,046.95 after inclusion of an exchange adjustment of $312,271.42 shown as other income on the statement of consolidated profit and loss.

Note 2 ***Inventories.*** The inventories, which include raw materials and manufacturing supplies, were valued at the lower of cost or market, cost being determined on the first-in, first-out basis and market on the basis of replacement market.

Note 3 ***Investment in and Advances to Subsidiary not Consolidated.*** As of December 31, 1945, the parent company and its domestic subsidiaries transferred to Cortland Equipment Lessors, Incorporated (a wholly-owned subsidiary) all of their store, warehouse and plant fixtures and automotive equipment at cost less depreciation applicable thereto as shown by their books. These assets, together with subsequent purchases by Cortland Equipment Lessors, Incorporated are leased from this subsidiary by the parent company. The balance sheet of this subsidiary at December 31, 1946 and the statements of income and surplus for the year then ended, with the accountants' report thereon, are submitted separately.

Note 4 ***Preferred Cumulative Stock.*** The preferred cumulative stock is redeemable on call and on voluntary or involuntary liquidation at a premium of $10.00 per share over par value, an aggregate premium of $2,003,210 on preferred stock outstanding.

Note 5 ***Restrictions on Surplus.*** Under the terms of the 2¼% note issue now outstanding, the amount of the earned surplus at December 31, 1946 was restricted to the extent of $13,092,065.46 in respect of dividend payments on preferred stock and to the extent of $16,092,065.46 in respect of dividend payments on common stock.

Note 6 ***Contingent Liabilities.*** The Company is contingently liable for $418,274.36 in respect of guarantees of mortgages on store buildings erected and sold and chattel mortgages of suppliers. Federal income tax returns for 1942 and subsequent years are subject to final review. The Company is defendant in certain actions arising out of alleged breach of anti-trust laws which have not yet come to trial. Lawsuits incidental to the Companies' operations are reasonably covered by insurance.

SAFEWAY STORES

INCORPORATED

A MARYLAND CORPORATION

As at December 31, 1946

Executive Officers

LINGAN A. WARREN	President and Treasurer
C. N. SANDERS	Vice President
A. D. KIRKLAND	Vice President
ARTHUR STEWART	Controller
MILTON L. SELBY	Secretary

Directors

LINGAN A. WARREN · ARTHUR STEWART · C. N. SANDERS
MILTON L. SELBY · A. D. KIRKLAND

Executive Offices

4th and Jackson Streets, Oakland, California

Transfer Agents

The Chase National Bank of the City of New York
New York, N. Y.

The Crocker First National Bank of San Francisco
San Francisco, Calif.

Registrars

City Bank Farmers Trust Company
New York, N. Y.

Bank of California, National Association
San Francisco, Calif.

Auditors

Peat, Marwick, Mitchell & Co.

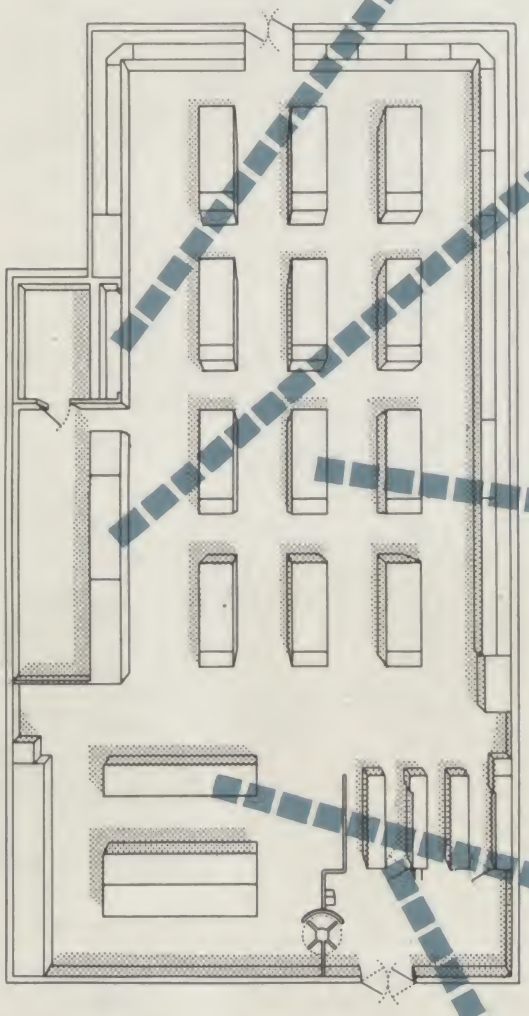
In the Safeway organization, function of the Administrative Office, Supplier Companies and Service Companies is to render specialized assistance to the Distribution Divisions, whose retail stores serve the public directly. Typical examples of Safeway operations are shown in the following pages.

THE SAFEWAY STORES

The standard Safeway retail location is a complete food store, offering meats, fresh produce, dairy products, groceries and related items. All stores are operated under a cash and carry plan as part of the basic program of reducing the cost of food distribution. Shown on these two pages are typical exterior scenes of such a Safeway Store, as well as examples of how the store employee works in the stock room and how the customer selects and buys food in the sales room.

Entrance to a standard Safeway Store is shown above. Below, from left to right: the parking lot adjacent to a standard store – clerk carries large order to customer's car – merchandise order is unloaded from Safeway truck at entrance to stock room – store employee uses the price-marking table to rubber-stamp prices on merchandise in the stock room.

Below, a simplified birds-eye view of a standard Safeway Store. Customer enters store at lower right, turns left to select fresh produce, proceeds up left-hand side to meat counter, thence to dairy cooler box, makes selections from shelving and center fixtures, returns to lower right where her purchases are checked out.



Dairy cooler box offers fresh eggs, milk, cream, and other dairy products. Customer is free to choose, uninfluenced by sales people.

Meat display presents wide variety. All merchandise sold by Safeway, including meat, is guaranteed to please or money back.

On center fixtures, and wall shelving, the customer finds full selection of merchandise both nationally distributed and regionally popular.

Customer may select fresh produce from ample displays, to fit her requirements. Safeway policy of pricing by weight insures full value.

At the check stand, checkers are courteous and accurate in handling customer's purchases; large orders are carried out to customer's car.

Training Safeway Employees

Training for Safeway employees is planned and given with the advice and assistance of Webster Training Service, Division of Safeway Stores, Incorporated. Company policy calls for the training of all employees: new employees are taught how to do their jobs; experienced employees are given refresher courses and offered training that will help them prepare for advancement. Photo above shows training instructor with group of store managers.

1 Webster Training Service develops training plans and courses to provide the type of instruction which will be most effective. First step is to translate job requirements to training requirements.

2 Courses include manuals and reference material. Where advisable, training programs are coordinated with provisions of G. I. Bill of Rights. Availability of training at local schools is also considered.

3 Visual aids are developed to "tell the story" more quickly and clearly. These include illustrated booklets and charts. Other types of training aids, such as films, are being developed.

4 Safeway instructors are chosen from among most experienced and capable employees. They are trained in presenting training courses and in the use of training aids and other materials.

5 "From the top down is Safeway's method of training. Supervisory personnel are informed of training courses. Also, courses on such subjects as "How to Teach a Job" and "Employee Relations" are provided.

6 Safeway's schools offer instruction in all phases of store opertions. Food clerks receive training in check stand operations, care of fresh fruit and vegetable sections, store stocking, etc.

7 Profitable operation of meat sections depends upon skilled meat cutters. Safeway trains apprentices, journeymen, and head meat cutters in its policies regarding cutting and displaying meat, etc.

8 "On-the-job training" is given to employees by their immediate superior. This follow-up makes it certain that employees gain experience in all the practical details of successful operation.

9 Home study opportunities are provided for employees. Safeway guides and manuals are always available to employees, and can be taken home. Correspondence courses are being developed also.

10 Comprehensive training program is designed to develop a reservoir of capable management talent. Well trained employees do a better job for the community, the company, and for themselves.

MEAT WAREHOUSES

Safeway meat warehouses help to bring satisfied meat customers back to the stores, for four reasons: 1. All Safeway beef is of top U.S. Government grades only; 2. Every cut of meat is properly aged and trimmed of excess bone and fat before leaving the warehouse; 3. Constant temperature control is maintained — even delivery trucks are refrigerated; 4. All Safeway meat is sold with a money-back guarantee.

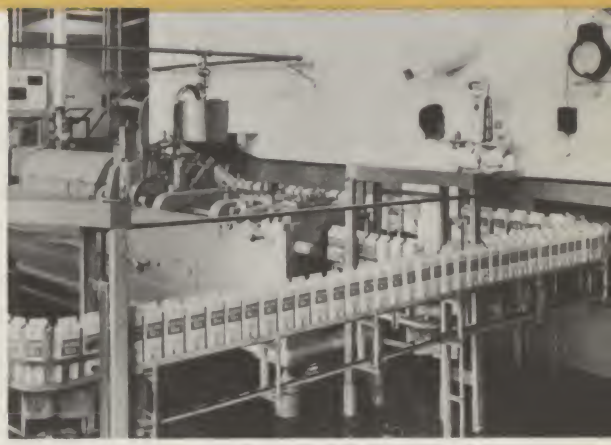
Scenes in a Safeway meat warehouse: above, quarters of beef (grade-marked U. S. Choice and U. S. Good) hang in the aging room under temperature and humidity control for proper aging; below, from left to right, breaking properly aged beef quarters — trimming excess bone and fat — assembling store-by-store meat orders in sanitary paper-lined trays, for swift shipment via refrigerated truck.

COFFEE ROASTING

Sponsored Brands of coffee (Edwards, Nob Hill, Wakefield, Airway) are blended, roasted and packed by Dwight Edwards Company, Division of Safeway Stores, Incorporated, with plants in seven U. S. and Canadian cities. Shown here is a typical battery of coffee roasters employing modern "Thermalo" method, which roasts the beans by heated air.

FLUID MILK PLANTS

Fresh milk and cream are packaged and delivered to Safeway stores from plants operated by Lucerne Milk Company, Division of Safeway Stores, Incorporated, at Los Angeles, Oakland, Portland, San Francisco, Seattle, Washington, D. C., and Winnipeg. Shown here is production line in a typical plant, where cartons are sterilized, filled and sealed automatically.



STORE RESEARCH AND DESIGN

Development of retail locations' stocking plans and store layouts, leading toward constant improvement, is one of the functions of Brewster Research Service, Division of Safeway Stores, Incorporated. Shown below at right is miniature model store, used to pretest practicability of revisions in store layout. Franklin Design Service, Division of Safeway Stores, Incorporated, has for one of its responsibilities the design of equipment for retail locations, plants, warehouses and offices. Shown at left is "mock-up" of experimental fixture for self-service display of frozen foods in retail locations.

As an advertiser of its own Sponsored Brands, Safeway competes with other brand advertisers product for product, for consumer patronage in such factors as quality, price and retail advertising and promotion. Safeway does not use its position as retailer to give its Sponsored Brands unfair preferred treatment in retail stores. Advertising for Sponsored Brands employs such media as newspapers, radio, consumer magazines, outdoor posters. Shown below are ten of Safeway's Sponsored Brand packages.

CORTLAND EQUIPMENT LESSORS, INCORPORATED

FINANCIAL STATEMENT

As of December 31, 1946

PEAT, MARWICK, MITCHELL & CO.

Accountants' Report

To the Board of Directors,

Safeway Stores, Incorporated.

We have examined the Balance Sheet of Cortland Equipment Lessors, Incorporated, a wholly owned subsidiary of Safeway Stores, Incorporated, as of December 31, 1946 and the Statements of Income and Surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying Balance Sheet and related Statements of Income and Surplus present fairly the position of Cortland Equipment Lessors, Incorporated at December 31, 1946 and the results of its operation for the year, in conformity with generally accepted accounting principles.

PEAT, MARWICK, MITCHELL & CO.

San Francisco, California,

March 7, 1947.

CORTLAND EQUIPMENT LESSORS, INCORPORATED

Balance Sheet
As of December 31, 1946

ASSETS

Current Assets:		
Cash in banks and on hand		$ 481,199.83
Fixed Assets, Less Depreciation—leased (Note 1):		
Store, warehouse and plant fixtures and equipment	$ 33,463,112.38	
Automotive equipment	6,680,558.32	
	40,143,670.70	
Less reserve for depreciation	23,414,230.93	16,729,439.77
Fixtures and Equipment, in course of construction or installation		1,462,310.85
Office Furniture and Equipment, Less reserve for depreciation $19,531.46		51,598.52
Total		$ 18,724,548.97

LIABILITIES

Current Liabilities:		
Notes payable to banks—installments due in 1947 (Note 2)		$ 2,600,000.00
Accounts payable and accrued expenses		9,674.76
Provision for Federal taxes on income		22,500.00
		2,632,174.76
Notes Payable to Banks (Note 2)		8,700,000.00
Due to Parent Company and Affiliates		485,399.45
Capital and Surplus:		
Common stock—authorized and outstanding—300,000 shares, par value $1.00 per share	$ 300,000.00	
Paid-in surplus	6,393,926.09	
Earned surplus	213,048.67	6,906,974.76
Total		$ 18,724,548.97

FOR NOTES CONSTITUTING A PART OF THE FOREGOING BALANCE SHEET, SEE "NOTES TO FINANCIAL STATEMENTS" ON PAGE FOUR

CORTLAND EQUIPMENT LESSORS, INCORPORATED

Statement of Income
For the Year Ended December 31, 1946

Income:		
Rental of fixed assets received from parent company (Note 1)		$ 4,017,314.80
Profit on fixed assets sold or abandoned (net)		73,048.67
		4,090,363.47
Expenses:		
Depreciation	$ 3,697,368.11	
Administrative and general expenses	32,870.65	3,730,238.76
		360,124.71
Interest on notes payable		118,576.04
		241,548.67
Provision for taxes on income:		
Federal normal and surtax	22,500.00	
State income tax	6,000.00	28,500.00
Net income		$ 213,048.67

FOR NOTE CONSTITUTING A PART OF THE FOREGOING STATEMENT OF INCOME, SEE "NOTES TO FINANCIAL STATEMENTS" ON PAGE FOUR

CORTLAND EQUIPMENT LESSORS, INCORPORATED

Statements of Surplus
For the Year Ended December 31, 1946

EARNED SURPLUS

Net income for the year ended December 31, 1946	$ 213,048.67

PAID-IN SURPLUS

Amount at December 31, 1945	15,593,926.09
Deduct dividend paid to parent company	9,200,000.00
Amount at December 31, 1946	$ 6,393,926.09

Notes to Financial Statements

Note 1. As of December 31, 1945 this corporation acquired from Safeway Stores, Incorporated (the parent company) and its domestic subsidiaries, all of their store, warehouse and plant fixtures and automotive and other equipment at cost less the accrued reserve for depreciation as shown by their books at that date. These assets, together with subsequent purchases, were leased to Safeway Stores, Incorporated commencing January 1, 1946.

Note 2. The notes payable to banks bear interest at from 1½ to 2½% per annum and are payable in quarterly installments of decreasing amounts from 1947 to 1956. As security for payment of these notes, the Corporation has assigned to the custodian for the lenders all rents receivable under the lease with Safeway Stores, Incorporated.

PRINTED IN U. S. A.

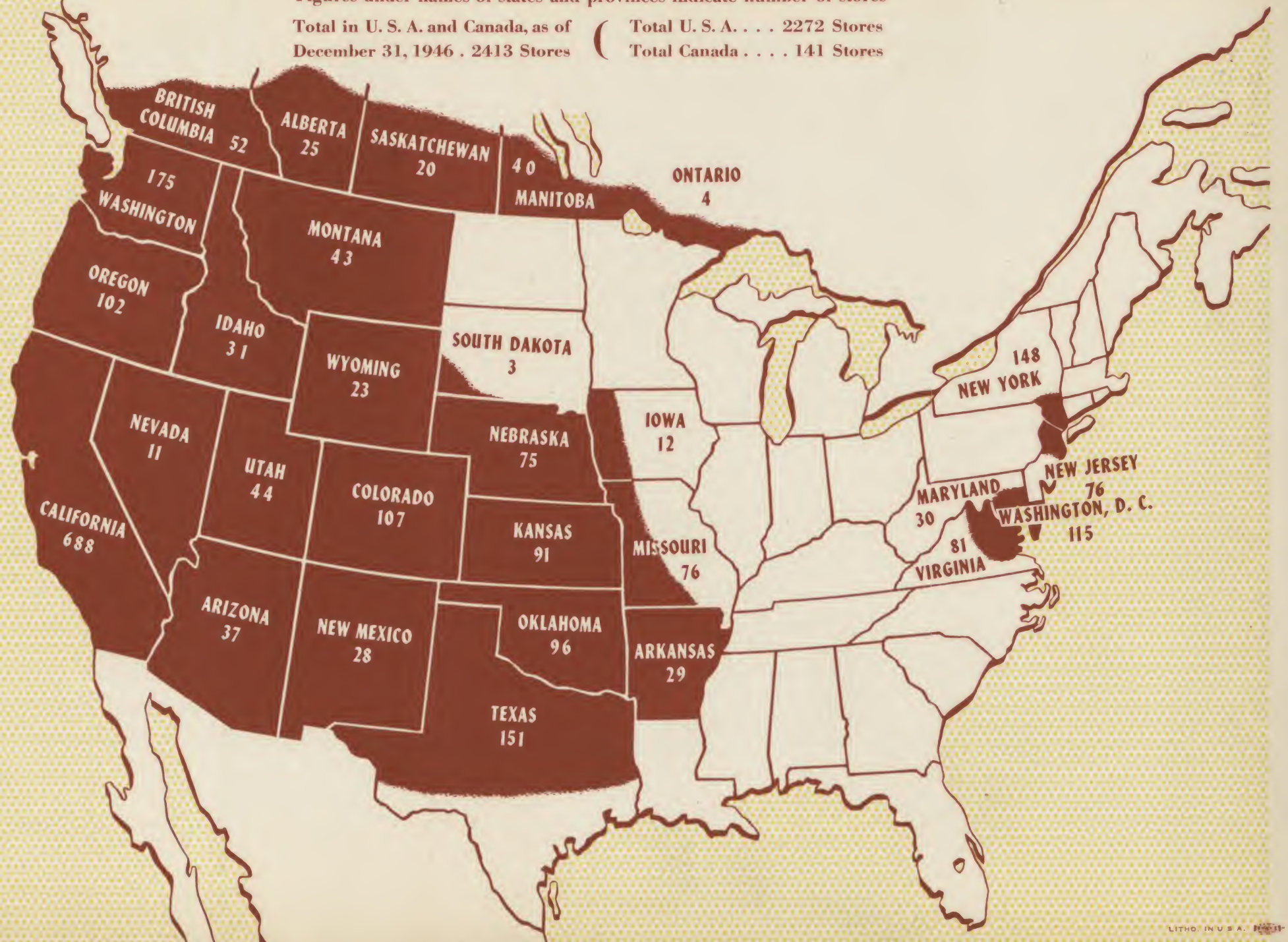
In communities where its retail stores are operated, Safeway consistently employs newspaper space to announce store prices. Because of their proved effectiveness, newspapers are used as the primary medium for this advertising whenever they provide coverage of the trading area. The housewife, above, is reading a typical Safeway retail advertisement published in 1946.

Safeway Stores in the United States and Canada

Figures under names of states and provinces indicate number of stores

Total in U. S. A. and Canada, as of December 31, 1946 . 2413 Stores

(Total U. S. A. . . . 2272 Stores
(Total Canada . . . . 141 Stores



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